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EPCOR Announces Quarterly Results

Edmonton - EPCOR Utilities Inc. (EPCOR) today released its quarterly results for the period ended June 30, 2009.

“EPCOR’s earnings from operations met expectations in the second quarter, even as market conditions continued to change, and as we prepared for the closing of the Capital Power Initial Public Offering in early July,” said EPCOR Utilities Inc. President and CEO, Don Lowry. “Overall, our Genesee plants continued to perform well and our water portfolio showed gains, in part driven by the Gold Bar Wastewater Treatment operation which was transferred to EPCOR on March 31, 2009.”

“EPCOR’s second quarter results were impacted by the Capital Power transaction, primarily by expenses incurred to reorganize our people and systems into two separate entities. The sale was effective in early July, the beginning of the third quarter.”

Highlights of EPCOR’s financial performance:

- Cash flow from operating activities for the three months ended June 30, 2009 was \$104 million compared with \$41 million for the corresponding period in the previous year.
- Cash flow from operating activities for the six months ended June 30, 2009 was \$251 million compared with \$139 million for the corresponding period in the previous year.
- Net income was \$50 million on revenues of \$740 million for the three months ended June 30, 2009 compared with \$16 million on revenues of \$865 million for the corresponding period in the previous year.
- Net income was \$154 million on revenues of \$1,630 million for the six months ended June 30, 2009 compared with \$84 million on revenues of \$1,664 million for the corresponding period in the previous year.
- Other comprehensive loss was \$18 million for the three months ended June 30, 2009 compared with other comprehensive income of \$1 million for the corresponding period in the previous year.
- Other comprehensive income was \$4 million for the six months ended June 30, 2009 compared with \$24 million for the corresponding period in the previous year.
- Investment in capital projects for the three months ended June 30, 2009 was \$168 million compared with \$186 million for the corresponding period in the previous year.
- Investment in capital projects for the six months ended June 30, 2009 was \$304 million compared with \$294 million for the corresponding period in the previous year.

Management’s discussion and analysis (MD&A) of the quarterly results are shown below. The MD&A and the unaudited interim financial statements are available on EPCOR’s website (www.epcor.ca) and will be available on SEDAR (www.sedar.com).

EPCOR’s wholly-owned subsidiaries build, own and operate electrical transmission and distribution networks, water and wastewater treatment facilities and infrastructure in Canada. EPCOR, headquartered in Edmonton, Alberta, has been named one of Canada’s Top 100 employers for nine

EPCOR Utilities Inc. Q2 2009, Page 1 of 29

consecutive years, and was selected one of Canada's 10 Most Earth-Friendly Employers. EPCOR's website is www.epcor.ca.

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EPCOR Utilities Inc.

Interim Management's Discussion and Analysis

June 30, 2009

This management's discussion and analysis (MD&A), dated August 3, 2009, should be read in conjunction with the unaudited interim consolidated financial statements of EPCOR Utilities Inc. and its subsidiaries for the three and six months ended June 30, 2009 and 2008, the audited consolidated financial statements and MD&A for the year ended December 31, 2008 and the cautionary statement regarding forward-looking information on page 27. In this MD&A, any reference to "the Company", "EPCOR", "we", "our" or "us", except where otherwise noted or the context otherwise indicates, means EPCOR Utilities Inc., together with its subsidiaries. Financial information in this MD&A is based on the unaudited interim consolidated financial statements, which were prepared in accordance with Canadian generally accepted accounting principles (GAAP), and is presented in Canadian dollars unless otherwise specified. In accordance with its terms of reference, the Audit Committee of the Company's Board of Directors reviews the contents of the MD&A and recommends its approval by the Board of Directors. The Board of Directors has approved this MD&A.

OVERVIEW

EPCOR is wholly-owned by The City of Edmonton. On May 8, 2009, EPCOR announced its plan to create Capital Power Corporation (CPC) and sell substantially all of its power generation assets and related operations to CPC, as described under Significant Events. The sale was effective early July 2009 and EPCOR's results for the second quarter were impacted by transactions and events which occurred in preparation for the sale. Administration expenses were incurred in the second quarter for professional and consulting fees and other reorganization costs.

EPCOR's power and water operations continued to deliver good results, and earnings from operating activities met our expectations for the second quarter. Consistent with their performance in the first quarter, our Genesee plants performed well and net availability incentive income was earned under the terms of the Power Purchase Arrangement (PPA) for Genesee 1 and 2. This was in contrast to their performance in the corresponding period in 2008 when there were three planned outages at the Genesee plants and net penalties were incurred at Genesee 1 and 2. Water revenues from the City of Edmonton customer base benefited from rate increases on April 1, 2009 and higher sales volumes due to drier than normal weather conditions in the month of June. Earnings from our water operations also benefitted from contributions from the Gold Bar Wastewater Treatment Plant (Gold Bar) operation which was transferred to EPCOR on March 31, 2009.

Canadian and U.S. financial markets stabilized somewhat in the second quarter of 2009. Narrower credit spreads and higher repayments than anticipated on the notes which EPCOR received in exchange for its Canadian non-bank sponsored asset-backed commercial paper (ABCP) resulted in a \$2 million increase in the fair value of the notes in the quarter. Although financial markets stabilized in the quarter, we were and are mindful of how quickly market conditions can change. Accordingly, we continued to rely on our ability to issue commercial paper and draw on our credit facilities to finance capital expenditures during the period.

Progress continued on our capital expenditure program. The second of the three units at Clover Bar Energy Centre is expected to be commissioned in the third quarter of 2009 and Power LP completed its repowering project for its North Island plant on May 1, 2009.

On June 30, 2009, our joint proposal with Enbridge Inc. for an integrated gasification combined cycle (IGCC) carbon capture power generation facility at Genesee was one of three projects selected by the Government of Alberta for the negotiation of letters of intent under the province's \$2 billion program for large-scale carbon capture and storage (CCS) projects. The Province of Alberta is working to have letters of intent signed in August 2009. Construction of the project will be subject to conditions such as regulatory approvals, economic and engineering assessments, and successful negotiation of an agreement with the Province of Alberta. EPCOR's progress in finding technology solutions that can lead to low-emission power from coal was marked by an agreement reached in May 2009 with Siemens Energy Inc. to provide power generation technology for EPCOR's Genesee IGCC power generation facility. EPCOR's interest in the Genesee IGCC CCS project was included in the sale of generation assets to Capital Power LP effective early July 2009.

SIGNIFICANT EVENTS

Announcement of initial public offering of Capital Power Corporation common shares

On May 8, 2009, EPCOR announced its plans to create CPC, a power generation company that is permanently headquartered in Edmonton. The final prospectus for the initial public offering of 21,750,000 common shares of CPC, at \$23.00 per common share was filed with securities regulators in Canada on June 25, 2009. The initial public offering closed on July 9, 2009.

Through a series of transactions (the Reorganization), as described more fully in the CPC prospectus, EPCOR sold substantially all of its power generation assets net of certain liabilities, and related operations including its 30.6% interest in EPCOR Power LP (Power LP), to CPC and its subsidiaries (Capital Power), effective early July 2009. The assets and related operations were previously included in EPCOR's Generation and Energy Services segments. EPCOR also entered into various agreements with Capital Power to provide for certain aspects of the separation of the power generation business from EPCOR, to provide for the continuity of operations and services and to govern the ongoing relationships between the two groups of entities.

The total consideration for the sale consisted of \$468 million of cash, 56.6 million exchangeable LP units of Capital Power LP and an \$896 million long-term loan receivable from Capital Power LP. In addition, EPCOR holds one special limited voting share in CPC providing the right to vote separately as a class in connection with certain amendments to the articles of CPC, including an amendment to change or permit the change of the location of the head office of CPC from The City of Edmonton. The difference between EPCOR's carrying value of its investment in the power generation business (\$2,909 million) and the consideration received results in an estimated loss on disposal of \$107 million which includes estimates of income tax related charges to recognize unrealizable future income tax assets, direct expenses incurred in connection with the sale, and underwriters' commissions. The amount will be finalized when the transaction is recorded in the third quarter financial statements and may differ materially from the current estimate.

Immediately following completion of the Reorganization, EPCOR held 56.6 million exchangeable LP
EPCOR Utilities Inc. Q2 2009, Page 4 of 29

units of Capital Power LP (exchangeable for common shares of CPC on a one-for-one basis) representing approximately 72.2% of Capital Power LP, while CPC held the remaining 27.8%. Each exchangeable LP unit is accompanied by a special voting share of CPC which entitles the holder to a vote at CPC shareholder meetings, subject to the restriction that such voting shares must at all times represent not more than 49% of the votes attached to all CPC common shares and special voting shares together. The special shares also entitle EPCOR to elect a maximum of four out of twelve directors of CPC. As a result of these restrictive rights, EPCOR has significant influence, but not control, of CPC and therefore will use the equity method to account for its investment in Capital Power.

Effective July 2009, income from Power LP will be included in the income from EPCOR's investment in Capital Power and EPCOR will no longer consolidate the financial results of Power LP.

EPCOR may eventually sell all or a substantial portion of its ownership interest in Capital Power, subject to market conditions, its requirements for capital and other circumstances that may arise in the future, and reinvest the proceeds from the share sales in EPCOR's growing utility infrastructure businesses, including water and wastewater treatment, and power transmission and distribution.

Asset-backed commercial paper exchanged for notes

On January 21, 2009, the restructuring of ABCP was implemented. Under the restructuring, the affected ABCP was exchanged for term floating-rate notes (notes), maturing no earlier than the scheduled termination dates of the underlying assets. The exchange was recorded at the estimated fair value of the ABCP on January 21, 2009. The key information on EPCOR's notes is as follows:

(i) EPCOR's allocation of notes under the restructuring was as follows:

Pool	Series	Rating	Face amount	
			(\$ millions)	
MAV2	Class A-1	A	\$ 47	67%
	Class A-2	A	9	13%
	Class B	Unrated	2	2%
	Class C	Unrated	2	2%
MAV3	IA Tracking	Unrated	11	16%
			\$ 71	100%

(ii) For the Master Asset Vehicle 2 (MAV2) pool notes, the underlying asset lives are anticipated to average nine years. The remaining notes come from Master Asset Vehicle 3 (MAV3) in the form of Ineligible Asset Tracking (IA Tracking) notes. These notes are expected to amortize over the lives of the underlying assets which have a weighted average life of approximately 18 years. In certain limited circumstances, the expected repayment dates could be longer than the expected asset lives.

(iii) ABCP investors, including EPCOR, were paid the accumulated accrued interest, net of ABCP restructuring costs, collateral requirements and other costs, on their existing ABCP from the date of the standstill in August 2007 to the date of the restructuring. For the three and six months ended June 30, 2009, EPCOR received \$2 million and \$4 million respectively, of accrued interest on ABCP and interest on the new notes.

At June 30, 2009, the Company held \$40 million in notes, all of which were received in exchange for ABCP which was purchased during the third quarter of 2007 at an original cost of \$71 million. As the notes are classified as held-for-trading financial assets, they are subject to ongoing fair value adjustments at each reporting date. At June 30, 2009, the fair value of the notes was estimated at \$40 million compared with a fair value of \$38 million and \$42 million for the ABCP at March 31, 2009 and December 31, 2008, respectively. The \$2 million increase for the second quarter was primarily due to narrower credit spreads. The \$4 million decrease in the first quarter was primarily due to lower short-term and higher long-term market interest rates which were taken into account in calculating the fair value of the notes. In 2008, a \$9 million reduction in the fair value of the ABCP was recognized in the first quarter and there was no change in fair value in the second quarter.

The estimate of fair value is subject to significant risks and uncertainties including the timing and amount of future cash payments, market liquidity, the quality and tenor of the assets and instruments underlying the notes, including the possibility of margin calls, and the future market for the notes. Accordingly, the fair value estimate of the notes may change materially.

CONSOLIDATED RESULTS OF OPERATIONS

Net income

(Unaudited, \$ millions)	Three months	Six months
Net income for the periods ended June 30, 2008	\$ 16	\$ 84
Unrealized fair value changes on derivative instruments and natural gas inventory held for trading, excluding Power LP fair value changes	36	69
Higher Genesee PPA availability incentive income	19	30
Maintenance expenses for Genesee scheduled turnarounds in 2008	11	19
Higher water rates and sales volumes, net of franchise fees	5	7
Gold Bar operating income excluding administration expenses	5	5
Lower financing expenses, excluding Power LP financing expenses	4	11
Fair value changes on notes exchanged for ABCP	2	7
Lower foreign exchange expense, excluding Power LP foreign exchange expense	1	7
Lower gain on sale of Battle River PSA	-	(4)
Gains on sales of portfolio investments in 2008	(3)	(3)
Lower income from Power LP	(8)	(27)
Lower Alberta electricity margins	(9)	(14)
Higher administration expenses, excluding Power LP administration	(26)	(31)
Other	(3)	(6)
Increase in net income	34	70
Net income for the periods ended June 30, 2009	\$ 50	\$ 154

Net income was \$50 million and \$154 million for the three and six months ended June 30, 2009 respectively, compared with \$16 million and \$84 million for the corresponding periods in 2008. The increases were primarily due to the net impact of the following:

- In the three and six months ended June 30, 2009, the unrealized fair value changes were favourable compared with the corresponding periods in the prior year primarily due to the fair value changes relating to our power and natural gas derivative contracts that were not designated as hedges for accounting purposes, as discussed under Energy Services later in this MD&A and due to the fair value changes on the Joffre contract-for-differences (CfD), as

discussed under Generation. These favourable variances were partly offset by unfavourable unrealized fair value changes in our forward foreign exchange contracts compared with the prior year, as discussed under Generation.

- Availability incentive income was earned in the three and six months ended June 30, 2009 under the terms of the Genesee 1 and 2 PPA compared with a net availability penalty in the corresponding periods in 2008. The net penalty in 2008 was due to major scheduled turnaround work on Genesee 1 in the first and second quarters and on Genesee 2 in the second quarter.
- Maintenance expenses for Genesee were lower due to the scheduled maintenance turnarounds in the first quarter of 2008 for Genesee 1 and for all three Genesee units in the second quarter of 2008 whereas there were no maintenance turnarounds in 2009. The back-to-back timing of the maintenance turnarounds in 2008 was required to accommodate the Alberta Electric System Operator's upgrade of the new high-voltage transmission lines in the Genesee and Keephills area.
- Water rates were higher in the three and six months ended June 30, 2009 compared with the corresponding periods in 2008 primarily due to increased rates under the performance-based rate tariff (PBR) as approved by The City of Edmonton. Water sales volumes were also higher due to drier weather conditions in the second quarter of 2009 compared with the second quarter of 2008.
- The Gold Bar operation was transferred to EPCOR from the City of Edmonton on March 31, 2009 and contributed \$5 million of operating income before administration expenses in the second quarter.
- Financing expenses, excluding unrealized fair value adjustments and Power LP's financing expenses were lower in the three and six months ended June 30, 2009 compared with the corresponding periods in 2008 primarily due to higher capitalized interest and collection of interest and principal related to the ABCP as described under Significant Events. The Company capitalizes borrowing costs as part of its cost of capital construction projects and in the second quarter and first half of 2009, construction work-in-progress for Keephills 3 and the Clover Bar Energy Centre was higher compared with the corresponding periods in 2008.
- In the first quarter of 2009, the fair value of the notes exchanged for ABCP decreased \$4 million due to lower short-term and higher long-term market interest rates, and in the second quarter of 2009, the fair value of the notes increased \$2 million due to narrower credit spreads, which are taken into account in calculating the fair value of the notes. In the first quarter of 2008, the fair value of EPCOR's ABCP decreased \$9 million and there was no change in its fair value in the second quarter of 2008.
- In the three and six months ended June 30, 2009, foreign exchange gains were realized on the settlement of forward foreign exchange contracts used to economically hedge the foreign exchange risk associated with anticipated purchases of equipment for generation capital projects. In the corresponding periods of 2008, foreign exchange losses were realized on these contracts.

- On January 15, 2009, we sold a 10% interest in the Battle River Syndicate Agreement for cash proceeds of \$47 million resulting in an after-tax gain of \$26 million. The sale was pursuant to the purchase and sale agreement entered into in June 2006 whereby EPCOR will sell its Battle River PPA and related interest in the Battle River Power Syndicate Agreement (PSA) over a four-year period ending in January 2010. An initial interest of 55% was sold in June 2006, followed by sales of 10% interests in January of each year thereafter. The after-tax gain on sale was \$26 million in 2009 and \$30 million in 2008. The year-over-year decrease was due to lower proceeds reflecting the one year shorter term to maturity for the PPA.
- Net income from Power LP was lower in the second quarter and first half of 2009 compared with the corresponding periods in 2008 primarily due to the net impact of unrealized changes in the fair value of natural gas supply and forward foreign exchange contracts. Plant operating margins were slightly higher in the quarter and unchanged in the six month period as contributions from the Morris facility, which was acquired in October 2008, were substantially offset by lower operating margins at the North Carolina plants due to reduced generation.
- In the first and second quarters of 2009, margins for the procurement, marketing and sale of electricity in retail and wholesale markets in Alberta (Alberta electricity margins) were lower compared with the corresponding periods in 2008 primarily due to the impact of lower Alberta spot power prices on our electricity portfolio. In addition, power generation was lower in 2009 due to our reduced interest in the Battle River PSA.
- Administration expenses across all business segments excluding Power LP, were higher in the second quarter of 2009 compared with the second quarter of 2008 due to increased spending on business development activities and our Genesee IGCC and CCS technology project, and costs related to the Reorganization.

Revenues

(Unaudited, \$ millions)	Three months	Six months
Revenues for the periods ended June 30, 2008	\$ 865	\$ 1,664
Unrealized fair value changes on derivative instruments and natural gas inventory held for trading, excluding Power LP fair value changes	44	134
Higher Genesee PPA availability incentive revenues	27	42
Higher Power LP revenues	22	29
Gold Bar revenue in 2009	13	13
Higher water rates and sales volumes	5	8
Higher Water Services' commercial and transportation services activity	4	11
Lower electricity trading activities in Ontario and the north eastern U.S.	(18)	(13)
Lower electricity trading activities in the western U.S.	(18)	(34)
Lower Alberta electricity revenues	(55)	(53)
Lower natural gas trading activities	(143)	(165)
Other	(6)	(6)
Decrease in revenues	(125)	(34)
Revenues for the periods ended June 30, 2009	\$ 740	\$ 1,630

Consolidated revenues were lower for the three and six months ended June 30, 2009 compared with the corresponding periods in 2008 due to the net impact of the following:

- Unrealized fair value gains recognized in the three and six months ended June 30, 2009 were due to decreasing forward Alberta power prices applied to our Alberta financial sales contracts that were not designated as hedges for accounting purposes. In the corresponding periods in 2008, unrealized fair value losses on these financial sales contracts were due to increasing forward Alberta power prices.
- Power LP revenues were higher primarily due to unrealized changes in the fair value of forward foreign exchange contracts for U.S. dollars used to economically hedge operating cash flow.
- Water Services' commercial and transportation services revenues were higher in the three and six months ended June 30, 2009 compared with the corresponding periods in 2008 primarily due to the water and wastewater treatment facilities construction project for Suncor Energy Inc., which commenced in the second quarter of 2008, and increased construction activity for street lighting, signals and light rail transit overhead wires for the City of Edmonton in 2009.
- Revenues for our Alberta electricity portfolio were lower in the second quarter of 2009 compared with the second quarter of 2008 primarily due to lower electricity pricing and volumes for our Regulated Rate Tariff (RRT) customers, lower Alberta power prices and our reduced interest in the Battle River PSA.

Capital spending and investment

(Unaudited, \$ millions)		
Six months ended June 30	2009	2008
Generation	\$ 228	\$ 197
Distribution and Transmission	36	63
Energy Services	7	2
Water Services	26	26
Corporate – other	7	6
	\$ 304	\$ 294

Capital expenditures for property, plant and equipment were higher for the six months ended June 30, 2009 compared with the corresponding period in 2008 primarily due to construction activity on Power LP's Southport, Roxboro and North Island plant enhancements in 2009. These increases were partly offset by capital expenditures in 2008 for the Downtown Edmonton Supply and Substation project in Distribution and Transmission which was completed in the third quarter of 2008 and for the E.L. Smith water treatment plant upgrade in Water Services which was completed in the second quarter of 2008.

Despite the current economic conditions, major project construction costs remain under pressure as project work packages, including material and labour components, are finalized in the normal course of construction.

Keephills 3 is a 495-MW supercritical coal-fired generation plant which is a joint development of EPCOR and TransAlta Corporation at TransAlta's Keephills site. We continued to manage the schedule and costs of our Keephills project to achieve commercial operations by the end of the first quarter of 2011.

The Clover Bar Energy Centre will be composed of three natural gas-fired peaking power generation units. The first unit was commissioned in the first quarter of 2008, the second unit is expected to be

commissioned in the third quarter of 2009 and construction of the third unit will continue through to 2010.

Power LP's capital expenditures, which are included in Generation in the table above, were \$43 million in the six months ended June 30, 2009 compared with \$14 million in the corresponding period in 2008. The capital expenditures in 2009 included enhancements to the Southport and Roxboro facilities to reduce their environmental emissions and improve their economic performance. In addition, during the second quarter of 2009, Power LP completed its upgrade of the natural gas turbine at the North Island facility resulting in improved plant efficiency.

SEGMENT RESULTS

Generation

Generation results (including intersegment transactions) (Unaudited, \$ millions)	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Revenues	\$ 276	\$ 234	\$ 515	\$ 455
Expenses	195	118	428	250
Operating income	\$ 81	\$ 116	\$ 87	\$ 205

(Unaudited, \$ millions)	Three months	Six months
Operating income for the periods ended June 30, 2008	\$ 116	\$ 205
Higher Genesee PPA availability incentive income	27	42
Maintenance expenses for Genesee scheduled turnarounds in 2008	16	26
Lower realized foreign exchange expense	3	8
Unrealized fair value changes on derivative instruments	1	(5)
Gain on sale of portfolio investments in 2008	(4)	(4)
Higher administration expenses	(13)	(18)
Lower Power LP operating income	(60)	(160)
Other	(5)	(7)
Decrease in operating income	(35)	(118)
Operating income for the periods ended June 30, 2009	\$ 81	\$ 87

Generation's operating income for the quarter and six months ended June 30, 2009 decreased \$35 million and \$118 million, respectively, compared with the corresponding periods in 2008. Further information on the year-over-year changes is as follows:

- Generation's revenues and operating income increased \$27 million and \$42 million in the second quarter and first half of 2009, respectively due to availability incentive income earned under the terms of the Genesee 1 and 2 PPA compared with a net availability penalty in the corresponding periods in 2008. There were scheduled turnarounds for required maintenance at Genesee 1 in the first quarter of 2008 and at all three Genesee units in the second quarter of 2008 whereas plant availability at Genesee 1 and 2 was above plan in both quarters of 2009. The back-to-back timing of the maintenance turnarounds in 2008 was required to accommodate the Alberta Electric System Operator's upgrade of the new high-voltage transmission lines in the Genesee and Keephills area.

- Foreign exchange gains were realized in the first and second quarters of 2009 on the settlement of forward foreign exchange contracts used to economically hedge the foreign exchange risk associated with anticipated purchases of equipment for Clover Bar Energy Centre and Keephills 3 whereas losses were realized on these contracts in the corresponding periods in 2008.
- The unrealized changes in the fair value of the forward foreign exchange contracts for equipment purchases for Clover Bar Energy Centre and Keephills 3 were losses in the first half of 2009 due to a weakening U.S. dollar compared with gains in the corresponding period in 2008 due to a strengthening U.S. dollar. This unfavourable variance was partly offset by a smaller decrease in the fair value of the Joffre contract-for-differences (CfD) due to a smaller decrease in the forward spark spread in the first half of 2009 compared with the first half of 2008. Spark spread is the theoretical difference between the price of electricity as the output and its energy cost of production.

These unrealized fair value changes decreased revenues by \$3 million and expenses by \$4 million in the second quarter of 2009 compared with the second quarter of 2008. In the six months ended June 30, these unrealized fair value changes decreased revenues by \$3 million and increased expenses by \$2 million in 2009 compared with 2008.

- Administration expenses increased in the three and six months ended June 30, 2009 compared with the corresponding periods in 2008 due to costs for the Reorganization and increased spending on business development activities and on our Genesee IGCC and CCS technology project.
- Power LP contributed \$58 million of operating income in the second quarter and \$22 million in the first six months of 2009 compared with \$118 million and \$182 million respectively, in the corresponding periods in 2008. The year-over-year decreases include unrealized changes in the fair value of natural gas supply and foreign exchange contracts of \$75 million for the quarter and \$175 million for the six month period. Plant operating margins were slightly higher in the quarter and unchanged in the six month period as contributions from the Morris facility which was acquired in October 2008, were offset by lower operating margins at the North Carolina plants due to reduced generation.

The decreases in operating income were partly offset by foreign exchange losses recognized in 2008. In the fourth quarter of 2008, Power LP re-evaluated the functional currency of its U.S. subsidiaries and determined it to be U.S. dollars rather than Canadian dollars. Accordingly, gains and losses on foreign currency translation are recorded in other comprehensive income commencing in the fourth quarter of 2008. Power LP reported net foreign exchange gains of \$3 million in the second quarter of 2008 and foreign exchange losses of \$11 million in the first half of 2008.

Power LP's revenues increased \$22 million in the second quarter and \$29 million for the first half of 2009 compared with the corresponding periods in the prior year, primarily due to unrealized changes in the fair value of forward foreign exchange contracts for U.S. dollars used to economically hedge operating cash flows. Year-over-year changes in plant revenues were insignificant as the revenue from the Morris operation in 2009 was offset by lower revenue from the California plants due to lower electricity prices which, under the terms of the PPA, were driven by lower natural gas prices.

Power LP's expenses increased \$82 million in the second quarter and \$189 million in the first half of 2009 compared with the corresponding periods in the prior year. The year-over-year increases included unrealized changes in the fair value of natural gas supply contracts of \$100 million for the quarter and \$202 million for the six month period. These unrealized fair value changes were included in fuel expense and were due to decreases in the forward market prices for natural gas in the first half of 2009 compared with increases in the first half of 2008. Operating expenses for the Morris facility also contributed to the increase in Power LP's expenses. These increases were partly offset by the foreign exchange losses in the first half of 2008 with no corresponding amounts included in net income in 2009, and decreased fuel costs at the California plants due to lower natural gas prices in the first half of 2009 compared with the first half of 2008.

Distribution and Transmission

Distribution and Transmission results (including intersegment transactions) (Unaudited, \$ millions)	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Revenues	\$ 58	\$ 59	\$ 119	\$ 118
Expenses	52	53	101	100
Operating income	\$ 6	\$ 6	\$ 18	\$ 18

There were no material changes in Distribution and Transmission revenues, expenses and operating income, for the three and six months ended June 30, 2009 compared with the corresponding periods in 2008. The increase in administration expenses for costs related to the Reorganization were offset by decreased energy purchases due to lower Alberta power prices.

Energy Services

Energy Services results (including intersegment transactions) (Unaudited, \$ millions)	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Revenues	\$ 381	\$ 567	\$ 970	\$ 1,095
Expenses	360	575	878	1,089
Operating income (loss)	\$ 21	\$ (8)	\$ 92	\$ 6

(Unaudited, \$ millions)	Three months	Six months
Operating income (loss) for the periods ended June 30, 2008	\$ (8)	\$ 6
Unrealized fair value changes in derivative instruments and natural gas inventory	51	106
Higher natural gas margins	3	6
Higher administration expenses	(12)	(12)
Lower Alberta electricity margins	(13)	(19)
Other	-	5
Increase in operating income	29	86
Operating income (loss) for the periods ended June 30, 2009	\$ 21	\$ 92

Energy Services' operating income increased \$29 million for the quarter and \$86 million for the six months ended June 30, 2009 compared with the corresponding periods in 2008 due to the net impact of the following:

- The unrealized fair value changes relate primarily to a net short position in both periods of both years for derivative electricity contracts that were not designated as hedges for accounting purposes. In the first and second quarters of 2009, forward Alberta power prices decreased which increased the fair value of these contracts whereas in the corresponding periods of 2008 forward Alberta power prices increased which reduced the fair value of these contracts. These unrealized fair value changes increased energy revenues by \$47 million and decreased energy purchases by \$4 million in the second quarter of 2009 compared with the second quarter of 2008, and increased energy revenues and energy purchases by \$137 million and \$31 million respectively, in the first half of 2009 compared with the first half of 2008.
- Natural gas margins were higher primarily due to gains realized on sales of storage gas in the first half of 2009 compared with losses in the first half of 2008 and increased margins from our speculative natural gas portfolio. Natural gas revenues and purchases decreased \$143 million and \$146 million respectively, in the second quarter of 2009 compared with the corresponding period in 2008 primarily due to lower physical natural gas trading activities, lower natural gas consumption due to fewer wholesale and merchant customers and lower natural gas prices. These factors also resulted in decreases in natural gas revenues and purchases for the first half of 2009 of \$165 million and \$171 million, respectively.
- Administration expenses increased in the three months ended June 30, 2009 primarily due to costs incurred for the Reorganization.
- In the second quarter of 2009, energy revenues and expenses from our Alberta electricity portfolio decreased \$55 million and \$42 million respectively, compared with the second quarter of 2008 due to the impact of reduced Alberta power prices on the portfolio, our reduced interest in the Battle River PSA, and lower pricing and volumes for our RRT business. The portfolio was in a net long position as we had more physical supply from our generating stations and interests in the Battle River and Sundance PPAs (acquired PPAs) than we had contracted to sell. The decrease in power generation resulting from our reduced interest in the Battle River PSA was partly offset by increased generation from Genesee 3. The impact of lower revenues on the energy margins for our RRT business was minimal. In the first half of 2009, energy revenues and expenses from our Alberta electricity portfolio were impacted by the factors described above for the second quarter and decreased \$53 million and \$34 million respectively.
- Decreased trading activities in the western U.S., north eastern U.S. and Ontario in the second quarter and first half of 2009 compared with the corresponding periods in 2008 reduced revenues by \$36 million and \$47 million respectively, but had minimal impact on energy margins.

Water Services

Water Services results (including intersegment transactions) (Unaudited, \$ millions)	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Revenues	\$ 92	\$ 70	\$ 159	\$ 128
Expenses	76	55	133	102
Operating income	\$ 16	\$ 15	\$ 26	\$ 26

(Unaudited, \$ millions)	Three months	Six months
Operating income for the periods ended June 30, 2008	\$ 15	\$ 26
Increased water rates and sales volumes, net of franchise fees	5	7
Gold Bar operating income excluding administration expenses in 2009	5	5
Higher administration expenses	(6)	(9)
Other	(3)	(3)
Increase in operating income	1	-
Operating income for the periods ended June 30, 2009	\$ 16	\$ 26

Water Services' operating income increased \$1 million in the second quarter and was unchanged in first half of 2009 compared with the corresponding periods of the prior year due to the net impact of the following:

- Revenues from water sales, net of franchise fees, were higher in the three and six months ended June 30, 2009 compared with the corresponding periods in 2008, primarily due to increased rates effective April 1, 2008 and April 1, 2009 under Water Services' Performance Based Rate structure as approved by the regulator, The City of Edmonton, and increased sales volumes due to drier weather conditions in the second quarter of 2009.
- The Gold Bar operation, which was transferred from the City of Edmonton on March 31, 2009, contributed \$13 million in revenues and \$8 million in expenses in the second quarter.
- Administration expenses increased in the second quarter of 2009 due to costs related to the Reorganization and the Gold Bar operation.

Transportation and other commercial services revenues were \$4 million higher in the second quarter and \$11 million higher in the six months ended June 30, 2009 compared with the corresponding periods in 2008 primarily due to the water and wastewater treatment facilities construction project for Suncor Energy Inc. and increased construction activity for street lighting, signals and light rail transit overhead wires for the City of Edmonton. The construction project for Suncor commenced in the second quarter of 2008 and was substantially completed in June 2009. The increase in revenues had minimal impact on operating income primarily because of increased labour and business development costs.

A higher incidence and cost of water distribution main breaks in both periods in 2009 compared with the corresponding periods in 2008 also contributed to higher expenses in Water Services.

CONSOLIDATED BALANCE SHEETS

(\$ millions)	June 30, 2009	December 31, 2008	Increase (decrease)	Explanation
Cash and cash equivalents	\$ 81	\$ 111	\$ (30)	Refer to liquidity and capital resources section.
Accounts receivable (including income taxes recoverable)	391	509	(118)	Lower receivables from RRT customers due to lower rates and consumption in June 2009 compared with December 2008. Lower receivables from commercial and industrial customers due to fewer customers. Lower receivables from the Alberta Electric System Operator and customers subject to pool price flow-through pricing due to lower spot prices in June 2009 compared with December 2008.
Derivative instruments assets (current)	141	130	11	Increase in fair value of power derivative sell contracts, partly offset by decrease in fair value of natural gas derivative buy contracts and Power LP's natural gas supply contracts.
Other current assets	97	96	1	
Property, plant and equipment	5,001	4,639	362	Addition of 2009 capital expenditures and Gold Bar assets partly offset by depreciation and amortization expense.
Power purchase arrangements (PPAs)	507	550	(43)	Amortization of PPAs and impact of lower foreign exchange rate on the translation of Power LP's U.S. PPAs.
Contract and customer rights and other intangible assets	300	296	4	
Derivative instruments assets (non-current)	74	75	(1)	
Future income tax assets (non-current)	99	103	(4)	
Goodwill	158	161	(3)	
Other assets	233	235	(2)	
Assets held for sale	26	43	(17)	Sale of 10% interest in Battle River PSA.

(\$ millions)	June 30, 2009	December 31, 2008	Increase (decrease)	Explanation
Short-term debt	\$ 468	\$ 140	\$ 328	Issuance of bankers' acceptances and commercial paper.
Accounts payable and accrued liabilities	455	587	(132)	Lower accrued payables to the Alberta Electric System Operator due to lower spot prices in June, 2009 compared with December, 2008, lower current liabilities for Generation capital projects and Power LP cash distributions to unitholders. Partly offset by current liabilities for Reorganization costs and the current portion of the transfer fee payable to the City of Edmonton for the Gold Bar asset transfer.
Derivative instruments liabilities (current)	144	131	13	Increased liability associated with the fair value of power derivative buy contracts partly offset by fair value changes in natural gas derivative buy contracts.
Other current liabilities	59	58	1	
Long-term debt (including current portion)	2,600	2,728	(128)	Repayment of \$224 million of long-term debt that was outstanding under the syndicated bank credit facility, and other ongoing debt repayments, partly offset by the issuance of \$112 million of long-term debt to the City of Edmonton for the Gold Bar asset transfer and \$38 million of long-term debt under Power LP's revolving credit facilities.
Derivative instruments liabilities (non-current)	64	110	(46)	Decreased liability associated with the fair value of power derivative sell contracts and Power LP's forward foreign exchange contracts.
Other non-current liabilities	171	125	46	Reflects the non-current portion of the transfer fee owing to the City of Edmonton for the Gold Bar asset transfer.
Future income tax liabilities (non-current)	107	100	7	
Non-controlling interests	492	540	(48)	Non-controlling interests' share of Power LP distributions and other comprehensive loss, partly offset by non-controlling interests' share of Power LP's net income.
Shareholder's equity	2,548	2,429	119	Net income, other comprehensive income and the Gold Bar asset capital contribution, partly offset by common share dividends and refundable income taxes.

LIQUIDITY AND CAPITAL RESOURCES

Cash inflows (outflows)				
(\$ millions)	Three months ended June 30		Increase (decrease)	Explanation
	2009	2008		
Operating	\$ 104	\$ 41	\$ 63	Receipt of Genesee PPA availability incentive income in 2009 compared with payment of availability penalties in 2008, and payments for major maintenance for Genesee turnarounds in 2008.
Investing	(158)	(146)	(12)	Higher payments for capital expenditures on Keephills 3 and Clover Bar Energy Centre, partly offset by proceeds on the disposal of the Castleton facility in 2009.
Financing	13	129	(116)	Net financing receipts in 2009 included net proceeds from the issuance of bankers' acceptances and commercial paper partly offset by ongoing long-term debt repayments. Net financing receipts in 2008 included the issuance of \$400 million of medium-term note debentures, partly offset by repayment of \$200 million of medium-term note debentures and ongoing long-term debt repayments.

Cash inflows (outflows)				
(\$ millions)	Six months ended June 30		Increase (decrease)	Explanation
	2009	2008		
Operating	\$ 251	\$ 139	\$ 112	Payment in 2008 of income taxes related to the 2006 gain on sale of the Battle River PSA, receipt of Genesee PPA availability incentive income in 2009 compared with payment of availability penalties in 2008, and payments for major maintenance for Genesee turnarounds in 2008.
Investing	(286)	(221)	(65)	Higher payments for capital expenditures and payment of a Gold Bar transfer fee installment in 2009, partly offset by proceeds on the disposal of the Castleton facility in 2009.
Financing	2	131	(129)	Net financing receipts in 2009 included \$328 million in net proceeds from the issuance of bankers' acceptances and commercial paper, and \$39 million from the issuance of long-term debt under Power LP's revolving credit facilities, partly offset by repayment of \$224 million of long-term debt that was outstanding under the syndicated bank credit facility, and other ongoing debt repayments. Net financing receipts in 2008 included the issuance of \$600 million of medium-term note debentures and net proceeds from the issuance of commercial paper, partly offset by repayment of \$200 million of medium-term note debentures and \$155 million of long-term debt that was outstanding under the syndicated bank credit facility, and ongoing long-term debt repayments.

The Company's cash from operating activities increased \$63 million and \$112 million in the three and six months ended June 30, 2009 respectively, compared with the corresponding periods in 2008. Over the next few quarters, we anticipate funds from operations to decrease due to the absence of the power generation business which transferred to Capital Power effective early July 2009. The Company plans to finance its working capital requirements with existing credit facilities and the issuance of commercial paper.

On July 9, 2009, cash proceeds received on the sale of the power generation business to Capital Power of approximately \$468 million increased cash flow from investing activities. Of the proceeds received, approximately \$424 million was used to repay bankers' acceptances and \$44 million was used to repay commercial paper indebtedness. In addition, EPCOR expects to receive partnership distributions of approximately \$18 million per quarter on its 56.6 million exchangeable LP units of Capital Power LP.

On July 9, 2009, EPCOR received an \$896 million long-term loan receivable from Capital Power LP as part of the consideration on the sale of the power generation business. The principal amounts, repayment schedules and interest rates of the long-term receivable mirror those of certain public debentures of EPCOR that were originally issued in respect of its power generation business. The

long-term loan receivable also includes an amount of principal with interest payments that will be sufficient to meet certain debt obligations of EPCOR to the City of Edmonton.

At June 30, 2009, the Company had undrawn bank credit facilities of \$1,511 million including \$222 held by Power LP. In conjunction with the Reorganization on July 9, 2009, the Company cancelled its \$600 million syndicated bank credit facility and renegotiated its \$800 million syndicated bank credit facility to \$500 million. The \$500 million syndicated bank credit facility has two tranches of \$250 million each. One tranche has approximately 1.5 years remaining while the other has approximately 3.5 years remaining. The changes to the syndicated bank credit facility required increases to borrowing costs to reflect current market conditions. In addition, the Company's five bilateral bank credit facilities totalling \$490 million were cancelled and similar facilities were established in CPC. Immediately after the Reorganization, the Company had undrawn committed bank credit facilities of \$434 million, of which \$136 million was committed for at least two years. These amounts exclude Power LP's credit facilities as it is accounted for on an equity basis effective July 1, 2009 and is no longer consolidated in EPCOR's financial statements.

Committed bank lines of credit are also used to provide letters of credit. At June 30, 2009, the Company had letters of credit of \$183 million (December 31, 2008 - \$253 million) outstanding to meet the credit requirements of energy market participants and conditions of certain service agreements, and to satisfy legislated reclamation requirements. The committed bank lines also indirectly back the Company's commercial paper program which has an authorized capacity of \$500 million, of which \$44 million was outstanding at June 30, 2009 (December 31, 2008 - \$113 million). Immediately after the Reorganization, the Company had \$114 million of letters of credit outstanding and its commercial paper program had an effective authorized capacity of \$225 million arising from the revised credit facilities, with no amount outstanding.

The Company's financing requirements for capital projects are expected to decrease after the transfer of the power generation business to Capital Power in early July 2009. Spending on capital projects and Water Services' commercial construction projects for the remainder of the year is expected to be approximately \$280 million and financed with existing credit facilities, the issuance of commercial paper or medium-term notes.

The Company has a Canadian shelf prospectus under which it may raise up to \$1 billion of debt with maturities of not less than one year. The shelf prospectus expires in November 2009. At June 30, 2009, the available amount remaining under this shelf prospectus was \$400 million.

Effects of economic downturn and market uncertainty

Canadian and U.S. financial markets stabilized somewhat in the second quarter of 2009. The Company secured financing to fund its capital expenditures and working capital requirements at a weighted average interest rate of 0.43% through the issue of commercial paper and bankers' acceptances. The Company plans to continue using commercial paper, existing credit facilities or medium-term notes for its financing requirements for the balance of the year. Should instability in the credit and economic environments worsen, it may adversely affect the interest rates at which we are able to borrow.

Notwithstanding the limited signs of improvement in the global economy, if the world-wide economy were to deteriorate in the longer term, particularly as they relate to Canada and the U.S., they may

adversely affect the Company's ability to renew credit facilities, arrange long-term financing for its capital expenditure programs and acquisitions, or refinance outstanding indebtedness when it matures. If market conditions worsen, the Company may suffer a credit rating downgrade and be unable to renew its credit facilities or access the public debt markets. Although we continue to believe that these circumstances have a low probability of occurring, we are monitoring EPCOR's capital programs and operating costs to minimize the risk that the Company becomes short of cash or unable to honour its obligations. Some of these considerations include the preservation of capital through capital expenditure reduction or deferral, operating cost reductions and sale of Capital Power LP units, market conditions permitting and in accordance with the terms and certain limiting conditions of the Reorganization.

CONTRACTUAL OBLIGATIONS

During the second quarter, the Company financed its capital expenditures and working capital requirements through its credit facilities and commercial paper program. The Company's outstanding short-term debt increased \$84 million in the second quarter and \$328 million in the first six months of 2009. Power LP's long-term debt under its bank credit facilities increased \$29 million in the first quarter and \$9 million in the second quarter of 2009. The Company repaid \$214 million in the first quarter and \$10 million in the second quarter of long-term debt that was outstanding under its syndicated bank credit facility at December 31, 2008.

On March 31, 2009, EPCOR issued \$112 million of long-term debt to the City of Edmonton and incurred a \$75 million transfer fee payable to the City of Edmonton for the Gold Bar asset transfer. The long-term debt bears interest at a weighted average interest rate of approximately 5.25% and matures over the period from 2010 to 2033 as follows:

(Unaudited, \$ millions)	
2009	\$ 6
2010	6
2011	6
2012	5
2013 to 2033	89
Total	\$ 112

The transfer fee is payable in annual instalments over the period from 2009 to 2015 and is included in the table of contractual obligations in EPCOR's 2008 annual MD&A. The first instalment of \$17 million was paid on March 31, 2009.

There have been no other material changes to the Company's purchase obligations, including payments for the next five years and thereafter, during the second quarter. However, a significant portion of EPCOR's contractual obligations were transferred to Capital Power or extinguished in conjunction with the sale of the power generation business and Reorganization effective early July 2009. Accordingly, EPCOR's contractual obligations at June 30, 2009 adjusted for the subsequent transactions relating to the sale and Reorganization were as follows:

\$ millions	Due within 1 year	Due between				Due after more than five years	Total
		1 and 2 years	2 and 3 years	3 and 4 years	4 and 5 years		
Capital projects ⁽¹⁾	\$ 67	\$ 3	\$ -	\$ -	\$ -	\$ -	\$ 70
Water and wastewater infrastructure projects ⁽²⁾	24	31	12	10	6	1	84
Long-term debt ⁽³⁾	230	25	217	14	11	1,261	1,758
Interest on long-term debt	161	127	107	90	81	903	1,469
Short-term debt	468	-	-	-	-	-	468
Asset retirement obligations ⁽⁴⁾	5	14	-	-	-	-	19
Operating leases	2	2	6	11	11	189	221
Total	\$ 957	\$ 202	\$ 342	\$ 125	\$ 109	\$ 2,354	\$ 4,089

⁽¹⁾ EPCOR's obligations for capital projects include obligations for various Distribution and Transmission and Water Services' projects.

⁽²⁾ EPCOR's obligations for water and wastewater infrastructure projects include obligations for the town of Chestermere project and the transfer fee related to the purchase of Gold Bar from the City of Edmonton.

⁽³⁾ Obligations assumed by EPCOR upon transfer of Gold Bar from the City of Edmonton are included. The transfer fee obligation is included in water and wastewater infrastructure projects above.

⁽⁴⁾ EPCOR's asset retirement obligations reflect the undiscounted cash flow required to settle obligations for the retirement of the Rossdale generating plant.

The long-term debt and interest on long-term debt in the above table include amounts for EPCOR's public debentures and obligations to the City of Edmonton that are mirrored by an \$896 million long-term receivable from Capital Power LP.

For further information on the Company's contractual obligations, refer to the 2008 annual MD&A.

CHANGES IN ACCOUNTING STANDARDS

Accounting changes for 2009

Rate-regulated operations

In December 2007, the Canadian Institute of Chartered Accountants (CICA) amended Handbook Sections 1100 – Generally Accepted Accounting Principles and made consequential amendments to Accounting Guideline 19 – Disclosures by Entities Subject to Rate Regulation. The amendments removed the temporary exemption from the requirement to apply Section 1100 to the recognition and measurement of assets and liabilities arising from rate regulation, effective January 1, 2009.

As permitted by Canadian GAAP, the Company is applying the U.S. Financial Accounting Standards Board (FASB) standard, Statement of Financial Accounting Standards No. 71 – Accounting for the Effects of Certain Types of Regulation (SFAS 71), which provides guidance for the recognition and measurement of rate-regulated assets and liabilities. These amendments and adoption of the SFAS 71 guidance effective January 1, 2009, did not have a material impact on our interim consolidated financial statements and is not expected to have a material impact going forward.

Intangible assets

In February 2008, the CICA issued Handbook Section 3064 – Goodwill and Intangible Assets and consequential amendments to Section 1000 – Financial Statement Concepts. The new section establishes standards effective January 1, 2009 for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions in International Financial Reporting Standards. EPCOR has adopted these amendments commencing January 1, 2009 and applied them on a retrospective basis, resulting in the reclassification of \$89 million of net assets from property, plant and equipment to contract and customer rights and other intangible assets in the comparative December 31, 2008 balance sheet. The adoption of these amendments had no other material impact on our interim consolidated financial statements.

Credit risk and fair value of financial assets and liabilities

On January 20, 2009, the Emerging Issues Committee of the CICA issued EIC-173 Credit Risk and the Fair Value of Financial Assets and Liabilities, which clarifies that an entity's own credit risk and the credit risk of its counterparties should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. Effective January 1, 2009, the Company adopted the recommendations of EIC-173 and applied them retrospectively without restatement of prior periods. Including counterparty credit risk in the estimate of the fair value of Power LP's natural gas and foreign exchange contracts on January 1, 2009 had the following impact on EPCOR's balance sheet on that date:

(Unaudited, \$ millions)	Increase (decrease)
Derivative instruments assets – non-current	\$ (1)
Derivative instruments liabilities – non-current	(6)
Future income tax liabilities – non-current	1
Non-controlling interests	3
Opening retained earnings	1

Future accounting changes

International financial reporting standards

In February 2008, the CICA confirmed that Canadian reporting issuers will be required to report under International Financial Reporting Standards effective January 1, 2011, including comparative figures for the prior year.

In January 2008, we established a core team to develop a plan which will result in the Company's first interim report for 2011 being in compliance with International Financial Reporting Standards.

The diagnostic phase of the project was completed in April 2008. For each international standard, we identified the primary differences from Canadian GAAP and made an initial assessment of the impact of the required changes for the purpose of prioritizing and assigning resources. In making the assessment, the number of businesses impacted, the potential magnitude of the financial statement adjustment, the availability of policy choices, the impacts on systems and the impacts on internal controls were all considered.

The information obtained from the diagnostic phase was used to develop a detailed plan for convergence and implementation. The convergence and implementation work has five key sections: Financial Statement Adjustments, Financial Statements, Systems Updates, Policies and Internal Controls, and Training.

Financial Statement Adjustments

For each international standard, we will determine the quantitative impacts to the financial statements, system requirements, accounting policy decisions, and changes to internal controls and business policies. The initial accounting policy decisions will be brought forward to the Audit Committee for their information as each standard is addressed. However, final accounting policy decisions for all standards in effect at the end of 2009 will be made in the fourth quarter of 2009, as they should not be determined in isolation of other policy decisions. Policy decisions for any new standards or standards that are amended in 2010 will be made in conjunction with our analysis of those standards in 2010.

As the project progresses, the timing of completion of certain items may change as changes to standards and other external factors such as discussions with certain stakeholders may result in a change in priorities. However, we believe the project has sufficient resources to meet the overall project timeline.

Financial Statements

There are also a number of international standards which relate to financial statement presentation. Draft financial statements highlighting the disclosure and presentation requirements were reviewed by and discussed with the EPCOR Audit Committee in the first quarter of 2009. Recommendations on certain presentation issues such as whether to present the income statement by function or nature of expense have been developed and will be brought forward in the third quarter of 2009. The development of the financial statement presentation will evolve throughout the project as the impacts of implementing the various standards are quantified.

Systems Updates

The diagnostic phase of the project identified two key accounting system requirements. The system must be able to capture 2010 financial information under both the prevailing Canadian GAAP and International Financial Reporting Standards to allow comparative reporting in 2011, the first year of reporting under International Financial Reporting Standards. It must also be able to accommodate possible changes to foreign currency translation methods, depending on how certain foreign entities are classified under International Financial Reporting Standards. EPCOR developed a systems strategy in 2008 and commenced implementation of this strategy in the first quarter of 2009. This strategy involves the implementation of a parallel fixed asset subledger and general ledger, which is planned for completion in the third quarter of 2009.

Policies and Internal Controls

In the determination of the financial statement adjustments, requirements for changes to Company policies and internal controls will be identified and documented. As there may be factors other than International Financial Reporting Standards impacting policies and internal controls, the formal documentation and approval of revised policies and internal controls will not occur until the third quarter of 2010.

The impact of International Financial Reporting Standards on certain agreements, such as debt, shareholder and compensation agreements, has also been included in the plan. Initial assessments of most agreements were performed in the second quarter and the balance will be assessed in the third quarter of 2009.

Training

The Company recognizes that training at all levels is essential to a successful conversion and integration. Accounting staff have attended two training sessions with more planned to occur throughout the conversion process. The Board of Directors and Audit Committee have attended a training session, and the Audit Committee receives regular updates on the conversion project. Further training for the Board of Directors and Audit Committee will occur throughout the project.

Disclosures about financial instruments

In June 2009, the CICA amended Handbook Section 3862 Financial Instruments – Disclosures, to adopt the amendments recently made by the International Accounting Standards Board to IFRS 7 Financial Instruments: Disclosures. The amendments require enhanced disclosures about fair value measurements, including the relative reliability of the inputs used in those measurements, and about the liquidity risk of financial instruments. Although the amendments apply to financial statements relating to fiscal years ending after September 30, 2009, comparative information is not required in the first year of application. We will assess the impacts of these amendments on our financial statements and implement the necessary additional disclosures commencing with the annual financial statements for 2009.

Consolidated financial statements and non-controlling interests

In January 2009, the CICA issued Handbook Section 1601 – Consolidated Financial Statements and Section 1602 – Non-controlling Interests, which replace Section 1600 – Consolidated Financial Statements. Section 1601 establishes the standards for the preparation of consolidated financial statements while Section 1602 establishes the standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Section 1602 is equivalent to the corresponding provisions of International Accounting Standard 27 – Consolidated and Separate Financial Statements.

Sections 1601 and 1602 will apply to EPCOR's interim and annual consolidated financial statements relating to periods commencing on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year provided Section 1582 – Business Combinations is also adopted at the same time. The impact of the new standards and the option to adopt them early will be assessed as part of our International Financial Reporting Standards project.

Business combinations

In January 2009, the CICA issued Handbook Section 1582 – Business Combinations, which replaces Section 1581 – Business Combinations and provides the Canadian equivalent to International Financial Reporting Standard 3 – Business Combinations. The section will apply on a prospective basis to EPCOR's business combinations for which the acquisition date is on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year provided Sections 1601 – Consolidated Financial Statements and 1602 – Non-controlling Interests are also adopted at the same time. The impact of the new standard and the option to adopt it early will be assessed as part of our International Financial Reporting Standards project.

CRITICAL ACCOUNTING ESTIMATES

In preparing the consolidated financial statements, management necessarily made estimates in determining transaction amounts and financial statement balances. The following are the items for which significant estimates were made in the consolidated financial statements: electricity revenues, costs and unbilled consumption, fair values, allowance for doubtful accounts, useful lives of assets, income taxes and PPA availability incentives. For further information on the Company's accounting estimates, refer to the 2008 annual MD&A.

RISK MANAGEMENT

This section should be read in conjunction with the Risk Management section of the most recent annual MD&A. EPCOR faces a number of risks including electricity price and volume risk, natural gas price and volume risk, operational risk, environment, health and safety risk, political, legislative and regulatory risk, project risk, credit risk, financial liquidity risk, supply risk of acquired PPAs, availability of people risk, weather risk, foreign exchange risk, conflicts of interest risk, and general economic conditions and business environment risks. The Company employs active programs to manage these risks.

On June 11, 2009, William Pidruchney filed a Statement of Claim against The City of Edmonton, EPCOR, Power LP General Partner, Power LP and CPC. Mr. Pidruchney alleged, among other things, that The City of Edmonton acted beyond its power and contrary to the Municipal Government Act (Alberta) and did not observe an appropriate public process in connection with the sale of the power generation business to CPC. Based on its review of the available information, EPCOR believes that the claim is without merit and intends to vigorously defend itself. On June 26, 2009, EPCOR filed a Statement of Defence denying all of the allegations contained in the Statement of Claim. On July 3, 2009, Mr. Justice Hawco of the Alberta Court of Queen's Bench denied an application by William Pidruchney for an interim injunction to delay the closing of the Capital Power initial public offering and its acquisition of EPCOR's power generation business. The court was not satisfied that there was any real merit to Mr. Pidruchney's application.

On June 30, 2009, an Originating Notice was filed in the Court of the Queen's Bench of Alberta, Judicial District of Edmonton, by the Alberta Federation of Labour, the Canadian Union of Public Employees, Local 30, and the Civic Service Union 52. The Notice names The City of Edmonton, EPCOR Utilities Inc. and CPC as Respondents and alleged, among other things, that certain purported actions taken by The City of Edmonton in connection with the sale of the power generation business to CPC were outside the jurisdiction of the municipality under the Municipal Government Act. Based on its review of the available information, EPCOR believes that this claim is without merit and intends to vigorously defend itself.

On March 20, 2009, EPCOR was charged under Alberta's Occupational Health and Safety Act (the Act) and Occupational Safety Code (the Code) in relation to the 2007 fatality of a power lineman employee who came in contact with energized equipment at a job site in south Edmonton. The charge under the Act relates to failure to ensure, as far as it was reasonably practicable to do so, the health and safety of the employee. The three charges under the Code relate to safe work plan provisions, Alberta Electric Utility Code rules and work process safeguards with respect to energized electrical cables. We have received disclosure from the Solicitor General's office regarding the specifics of the allegations, which we are currently reviewing. The next court date is set for August 4, 2009 for the EPCOR Utilities Inc. Q2 2009, Page 25 of 29

purpose of entering a plea to the charges. Each charge could attract a fine of up to \$500,000 upon conviction.

As part of ongoing risk management practices, the Company reviews current and proposed transactions to consider their impact on the risk profile of the Company. There have been no material changes to the risk profile or risk management strategies of EPCOR as described in the annual MD&A for 2008 that have affected the financial statements for the second quarter. As a result of the sale of the power generation business and the Reorganization, the risks associated with that business have transferred to Capital Power effective early July 2009. Although EPCOR no longer controls the power generation business, it has significant economic exposure to and influence over Capital Power and therefore the business risks as described in the annual MD&A for 2008 still apply. The key change is the risk associated with the loss of control over this part of the Company's total business.

OUTLOOK

The sale of the power generation business and associated Reorganization will significantly impact the presentation of EPCOR's subsequent results in its consolidated financial statements. Commencing in early July 2009, EPCOR will no longer recognize operating revenues and expenses for the Generation segment or for the electricity and natural gas trading operations of the Energy Services segment, but will recognize equity income from its approximate 72.2% interest in Capital Power. Also commencing in early July 2009, EPCOR will no longer consolidate the results of Power LP to recognize its 30.6% interest in the partnership's net income. However, EPCOR's equity earnings from Capital Power will include approximately 72.2% of the 30.6% interest in Power LP. In addition, the earnings volatility associated with fair value changes in power and natural gas derivative contracts that are not hedged for accounting purposes will be reflected in the equity earnings from Capital Power rather than in the operating results of the Generation and Energy Services segments.

We expect EPCOR's financing expenses to decrease as we used the \$468 million of cash proceeds from the sale of the generation business to repay bankers' acceptances and commercial paper debt on July 9, 2009. We also received an \$896 million interest-bearing promissory note from Capital Power LP as part of the consideration for the sale, which has the same terms as a corresponding amount of EPCOR's long-term debt.

Earnings in the next two quarters will continue to benefit from the March 31, 2009 addition of the Gold Bar operation. Although the second unit of the Clover Bar Energy Centre is still expected to start operating and contributing to net income in the third quarter of 2009 as discussed in the MD&A for the first quarter, its contribution will be reflected in the equity earnings from our 72.2% interest in Capital Power and not in operating revenues and expenses as previously expected.

FORWARD-LOOKING INFORMATION

Certain information in this MD&A is forward-looking within the meaning of Canadian securities laws as it relates to anticipated financial performance, events or strategies. When used in this context, words such as "will", "anticipate", "believe", "plan", "intend", "target", and "expect" or similar words suggest future outcomes.

Forward-looking information in this MD&A includes: (i) the Company may eventually sell all or a substantial portion of its ownership interest in Capital Power, subject to market conditions, its requirements for capital and other circumstances that may arise in the future, and reinvest the proceeds from the share sales in the Company's growing utility infrastructure businesses, including water and wastewater treatment, and power transmission and distribution; (ii) Keephills 3 construction will be completed by the end of the first quarter of 2011; (iii) installation of the remaining two units at the Clover Bar Energy Centre is planned for completion in the third quarter of 2009 and in 2010, respectively; (iv) funds from operations are expected to decrease over the next few quarters due to the Reorganization; (v) the Company plans to continue using commercial paper and existing credit facilities for its working capital requirements; (vi) the Company expects to receive partnership distributions of approximately \$18 million per quarter on its 56.6 million exchangeable LP units of Capital Power LP; (vii) the company's financing requirements for capital projects are expected to decrease after the Reorganization; (viii) spending on capital projects and Water Services' commercial construction projects for the remainder of the year is expected to be \$280 million and is expected to be financed with existing credit facilities, the issuance of commercial paper or medium-term notes; (ix) expectations regarding the impact on the Company of the capital and credit market instability and expected risk mitigation plans; (x) the Company will adopt amendments to accounting standards on financial statement disclosure for financial instruments in the fourth quarter of 2009; (xi) the expected payments to be received related to the acquisition of potable water and wastewater treatment plant assets subsequent to June 30, 2009; (xii) earnings for the remainder of 2009 will benefit from the addition of the Gold Bar operation; and (xiii) equity earnings from Capital Power will benefit from the commissioning of the second unit of the Clover Bar Energy Centre in the third quarter of 2009.

These statements are based on certain assumptions and analyses made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments and other factors it believes are appropriate. The material factors and assumptions underlying this forward-looking information include, but are not limited to: (i) the operation of the Company's facilities; (ii) power plant availability, including those subject to acquired PPAs (iii) the Company's assessment of commodity and power markets; (iv) the Company's assessment of the markets and regulatory environments in which it operates; (v) weather; (vi) availability and cost of labour and management resources; (vii) performance of contractors and suppliers; (viii) availability and cost of financing; (ix) foreign exchange rates; (x) management's analysis of applicable tax legislation; (xi) the currently applicable and proposed tax laws will not change and will be implemented; (xii) proposed environmental regulations will be implemented; (xiii) counterparties will perform their obligations; (xiv) expected interest rates, related credit spreads and mortality rates for new notes exchanged for ABCP; (xv) ability to implement strategic initiatives which will yield the expected benefits; and (xvi) the Company's assessment of capital markets and ability to complete future share offerings.

Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks and uncertainties which could cause actual results and experience to differ materially from EPCOR's expectations. Such risks and uncertainties include, but are not limited to risks relating to: (i) operation of the Company's facilities (ii) power plant availability and performance; (iii) unanticipated maintenance and other expenditures; (iv) availability and price of energy commodities; (v) electricity load settlement; (vi) regulatory and government decisions including changes to environmental, financial reporting and tax legislation;

(vii) weather and economic conditions; (viii) competitive pressures; (ix) construction; (x) availability and cost of financing; (xi) foreign exchange; (xii) availability of labour and management resources; and (xiii) performance of counterparties, partners, contractors and suppliers in fulfilling their obligations to the Company.

This MD&A includes the following updates to previously issued forward-looking statements: (i) the second unit of the Clover Bar Energy Centre will be commissioned in the third quarter of 2009 as opposed to the second quarter of 2009 as previously reported due to a component failure during initial commissioning; (ii) expected capital spending will decrease from the previously disclosed \$800 million to approximately \$591 million due to the Reorganization; and (iii) earnings in the second quarter of 2009, before fair value changes were not consistent with earnings in the first quarter primarily due to costs related to the Reorganization.

As a result of the Reorganization, EPCOR no longer controls the generation business that was sold to CPC. Accordingly, after the date of this MD&A, readers should refer to the public disclosures of CPC for any revisions to prior forward looking statements relating to EPCOR's former generation business.

Readers are cautioned not to place undue reliance on forward-looking statements as actual results could differ materially from the plans, expectations, estimates or intentions expressed in the forward-looking statements. Except as required by law, EPCOR disclaims any intention and assumes no obligation to update any forward-looking statement even if new information becomes available, as a result of future events or for any other reason.

QUARTERLY RESULTS

Quarter ended	Revenues	Net income
	(Unaudited, \$ millions)	
June 30, 2009	\$ 740	\$ 50
March 31, 2009	890	104
December 31, 2008	807	15
September 30, 2008	958	76
June 30, 2008	868	16
March 31, 2008	799	68
December 31, 2007	962	59
September 30, 2007	928	67

Events for 2009, 2008 and 2007 quarters that have significantly impacted net income and the comparability between quarters are:

- March 31, 2009 first quarter results included a \$26 million gain on the sale of a 10% interest in the Battle River PSA, and unrealized fair value gains resulting from the impact of low Alberta power prices on our derivative electricity contracts that were not designated as hedges for accounting purposes. These gains were partly offset by unrealized fair value losses on Power LP's natural gas supply contracts, and forward foreign exchange contracts used to economically hedge U.S. cash flows.
- December 31, 2008 fourth quarter results reflected impairment charges on the goodwill associated with the investment in Power LP and on Power LP's investment in PERH. Power LP also

recognized unrealized fair value losses on its forward foreign exchange contracts used to economically hedge U.S. cash flows and on its natural gas supply contracts.

- September 30, 2008 third quarter results reflected gains on the sale of portfolio investments and unrealized fair value gains on derivative electricity contracts, Joffre contract for differences and forward foreign exchange contracts. These gains were partly offset by administration costs resulting from Long-Term Incentive Plan (LTIP) adjustments, and lower income from Power LP.
- June 30, 2008 second quarter results reflected maintenance costs and Genesee PPA availability penalties resulting from scheduled turnarounds on all three Genesee plants partly offset by the favourable impact of high Alberta power prices on our derivative electricity contract portfolio, and unrealized fair value gains on Power LP's natural gas supply contracts.
- March 31, 2008 first quarter results included a \$30 million gain on the sale of a 10% interest in the Battle River PSA, the favourable impact of high Alberta power prices on our derivative contract portfolio which was in a net long position and unrealized fair value gains on Power LP's natural gas supply contracts. These gains were partly offset by maintenance costs and Genesee PPA availability penalties resulting from a scheduled turnaround at Genesee 1, and a fair value reduction of ABCP.
- December 31, 2007 fourth quarter results included unrealized fair value gains on derivative financial instruments in our Alberta merchant and wholesale portfolio which were not designated as hedges for accounting purposes, and unrealized fair value gains on Power LP's natural gas supply contracts. These gains were partly offset by a reduction in the fair value of ABCP and a future income tax charge for the impact of future tax rate reductions which were substantively enacted in December 2007.
- September 30, 2007 third quarter results included higher Alberta electricity margins due to favourable settlements on financial sales as a result of higher contract prices and lower Alberta power prices. In addition, the results included favourable unrealized fair value changes in financial and non-financial derivative instruments, which were not designated as hedges for accounting purposes, in Alberta merchant and wholesale positions due to lower forward power prices combined with a net short position.

Additional information

Additional information relating to EPCOR, including EPCOR's annual information form, is available on SEDAR at www.sedar.com.